

Message Text

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PAGE 01 LISBON 09162 01 OF 02 291841Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-05 H-01 INR-07 L-03
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OMB-01 TRSE-00 /060 W
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P R 291736Z NOV 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC PRIORITY 3925
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MOSCOW
AMCONSUL OPORTO
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USMISSION USNATO
DIA WASHDC
USCINCEUR VAIHINGEN GER
COMUSFORAZ LAJES FLD AZ
USNMR SHAPE BRUSSELS BEL

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 9162

E.O. 11652: GDS
TAGS: PGOV PINT PO
SUBJECT: A NEW GOVERNMENT FOR PORTUGAL: COMPOSITION AND
TIMING

REF: (A) LISBON 9132 (DTG 281756Z NOV 77) (NOTAL)
(B) LISBON 9144 (DTG 291205Z NOV 77)

SUMMARY: THE SHAPE AND SUCCESS OF PORTUGAL'S NEXT GOVERNMENT
WILL BE CONDITIONED BY THE ROLE OF THE PRESIDENT, THE
WILLINGNESS OF THE SOCIALISTS TO PARTICIPATE, THE PRICE
DEMANDED BY THE CDS/PSD, THE AUTHORITY OF THE PRIME
MINISTER, AND THE RESPONSE OF THE COMMUNISTS. ALTHOUGH
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PAGE 02 LISBON 09162 01 OF 02 291841Z

A CONFIDENCE MOTION IS LIKELY BY DEC 2, A NEW GOVERNMENT
MAY NOT BE ABLE TO CONSUMMATE IMF NEGOTIATIONS ON POLITICAL
LEVEL UNTIL EARLY JANUARY. PORTUGAL BY THEN COULD BE IN
THE MIDST OF A SERIOUS LIQUIDITY CRISIS. END SUMMARY.

1. THE SHAPE OF THINGS TO COME: PRIME MINISTER SOARES'S
RESIGNATION SEEMS MORE AND MORE LIKELY. IT COULD COME AS

EARLY AS NEXT WEEK. IT WILL FOLLOW EITHER A LOST CONFIDENCE MOTION OR A VICTORY DEPENDENT UPON COMMUNIST SUPPORT. EITHER OUTCOME WOULD FORCE THE SOCIALISTS FROM OFFICE. THE FOLLOWING CONSIDERATIONS WILL CONDITION THE SUCCESS OF EFFORTS TO FORM A NEW GOVERNMENT AND DETERMINE ITS COMPOSITION.

-- THE PRESIDENT'S ROLE: EANES WILL BE FORCED TO MEDIATE DIFFERENCES AMONG THE DEMOCRATIC PARTIES. THE PRESIDENT'S PREFERENCE IS TO STRENGTHEN THE CENTER - TO BRING THE PS AND PSD TOGETHER. BUT GIVEN PSD RESISTANCE, AND SA CARNEIRO'S RECENT PERSONAL ATTACKS, THE PRESIDENT'S MAJOR EFFORT IS LIKELY TO BE DIRECTED TOWARD ENCOURAGING AGREEMENT BETWEEN THE CDS AND THE PS IN HOPES THAT THE SOCIAL DEMOCRATS CAN EVENTUALLY BE BROUGHT ALONG. IF NO UNDERSTANDING CAN BE REACHED AMONG THE DEMOCRATIC PARTIES, THE PRESIDENT WILL FACE TWO ALTERNATIVES: EITHER TO PRESENT HIS OWN PROGRAM AND PUT THE PRESTIGE OF HIS OFFICE SQUARELY ON THE LINE OR TO CALL ELECTIONS. NOBODY AT THIS POINT WANTS ELECTIONS.

-- SOCIALIST PARTICIPATION: SOARES STILL BELIEVES THAT WITH PRESIDENTIAL SUPPORT HE CAN PUT TOGETHER A SECOND GOVERNMENT OF SOCIALISTS AND "INDEPENDENTS" (REF A). BUT THE KEY VARIABLES, THE ROLE OF THE CDS AND THE DISPOSITION OF THE PRESIDENT TO ACT, ARE NOT UNDER SOARES'S CONTROL. THE ISSUE OF PS PARTICIPATION WOULD NOT ARISE WERE SOARES TO LEAD THE NEW GOVERNMENT. CONFIDENTIAL

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PAGE 03 LISBON 09162 01 OF 02 291841Z

HOWEVER, SHOULD SOARES FAIL OR SHOULD ANOTHER CANDIDATE BE SELECTED TO FORM A GOVERNMENT, THE SOCIALISTS MIGHT BALK. HAVING BEEN FORCED TO STEP DOWN, SOARES AND THE PS WOULD BE TEMPTED BY THE ATTRACTIONS OF BEING THE OPPOSITION. A STRONG PRESIDENTIAL APPEAL, HOWEVER, MIGHT ALLOW THE SOCIALISTS TO OVER COME THEIR OWN NO-ALLIANCES RHETORIC AND ENTER THE GOVERNMENT AS INDEPENDENTS. A FORMAL COALITION INCLUDING THE SOCIALISTS IS HIGHLY UNLIKELY.

-- CDS/PSD PARTICIPATION: THE CENTER DEMOCRATS ARE PRIMARILY INTERESTED IN POLICY CONCESSIONS; THEY DEMAND REVISION OF ALL MAJOR ECONOMIC LEGISLATION ON THE BOOKS. THE SOCIAL DEMOCRATS HAVE LET IT BE KNOWN THAT THEY WILL ACCEPT NOTHING LESS THAN VETO POWER OVER MAJOR PERSONNEL AND POLICY DECISIONS OF THE NEW GOVERNMENT. THE SOCIAL DEMOCRATS ARE MORE INTERESTED IN GETTING THEIR PEOPLE IN KEY POSITIONS; THEY ARE NOT LIKELY TO PERMIT EITHER THE PRESIDENT OR A NEW PRIME MINISTER TO MAKE THE CHOICES. AND SA CARNEIRO WILL REMAIN A VOCAL CRITIC ON THE OUTSIDE DOING WHAT HE CAN TO REDUCE THE PRESIDENT'S MANEUVERING ROOM.

-- AND THE PCP?: THE COMMUNISTS WILL CONTINUE TO RESIST A CENTER-RIGHT COALITION. IF THEY CANNOT PREVENT IT, THEY

WILL MAKE THE MOST OF BEING THE OPPOSITION. UNLESS THEY ARE GRANTED MAJOR CONCESSIONS THEY WILL STIMULATE THE CGTP TO INCREASE PRESSURE ON THE GOVERNMENT THROUGH STRIKES AND DEMONSTRATIONS, HOLDING IN RESERVE THE POSSIBILITY OF A GENERAL STRIKE CALL. THEY AWAIT THE SOCIALISTS WITH OPEN ARMS, STILL HOPING TO FORCE A POPULAR FRONT.

-- THE NEXT PRIME MINISTER: UNTIL HE TAKES HIMSELF OUT OF THE RUNNING, SOARES IS THE LEADING CANDIDATE TO SUCCEED HIMSELF. IF HE IS SELECTED AND UNABLE TO FORM A GOVERNMENT, IT WILL COMPLICATE THE TASK OF ANYONE WHO MIGHT FOLLOW;

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PAGE 01 LISBON 09162 02 OF 02 291854Z
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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 9162

THE SOCIALISTS WOULD BE LESS WILLING TO COOPERATE. BUT THE ODDS AT THIS POINT ARE AGAINST SOARES. OF NECESSITY, EANES MAY HAVE TO TURN TO AN "INDEPENDENT." BEST BETS INCLUDE: COMMERCE MINISTER MOTA PINTO; NATIONAL SAVINGS BANK PRESIDENT, ECONOMIST JACINTO NUNES; JUSTICE MINISTER ALMEIDA SANTOS; DEFENSE FIRMINO MIGUEL; PORTUGUESE AMBASSADOR IN MADRID VITOR CUNHA REGO; AND PORTUGUESE AMBASSADOR IN BONN ERNANI LOPES. ALL WOULD NEED SOME URGING BEFORE ACCEPTING.

AS SIGNIFICANT AS THE MAN SELECTED WILL BE THE
AUTHORITY HE IS GRANTED. ALTHOUGH STRONG LEADERSHIP
WILL BE REQUIRED TO MOVE THE COUNTRY ALONG THE ROAD TO
ECONOMIC RECOVERY, THE PARTIES WILL PRESS FOR A SHARE OF
THE DECISION-MAKING AUTHORITY ON ALL IMPORTANT ISSUES.
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PAGE 02 LISBON 09162 02 OF 02 291854Z

2. SEQUENCE AND TIMING: SOARES WILL PROBABLY INTRODUCE
A CONFIDENCE MOTION ON DEC 2. ASSUMING ITS FAILURE OR,
MORE LIKELY, SUCCESS ONLY WITH PCP SUPPORT, THE FOLLOWING
WILL ENSUE.

- PRIME MINISTER SOARES WILL RESIGN.
- THE PRESIDENT WILL CALL TOGETHER PARTY LEADERS TO
DISCUSS FORMATION OF A NEW GOVERNMENT.
- THE PRESIDENT WILL NAME A NEW PRIME MINISTER.
- THE PRIME MINISTER WILL CONSULT/NEGOTIATE WITH THE
PARTIES TO DEVELOP A PROGRAM AND COMPOSITION FOR A NEW
GOVERNMENT.
- MEMBERS OF THE NEW GOVERNMENT WILL BE SELECTED AND
DETAILS OF THE PROGRAM HAMMERED OUT MINISTRY-BY-MINISTRY.
- THE GOVERNMENT PROGRAM WILL BE PRESENTED TO THE
LEGISLATIVE ASSEMBLY FOR APPROVAL.
- NEGOTIATIONS WITH THE IMF WILL BE RESUMED. PRIOR TO
THAT POINT THE BANK OF PORTUGAL MAY RESOLVE OUTSTANDING DIF-
FERENCES, BUT ONLY A SOLID GOVERNMENT CAN CONSUMMATE THE
AGREEMENT POLITICALLY.

THE LENGTH OF THIS PROCESS WILL BE DETERMINED BY THE CONSIDERA-
TIONS DISCUSSED EARLIER. UNLESS AN UNDERSTANDING CAN BE WORKED
OUT QUICKLY BETWEEN THE SOCIALISTS AND CENTER DEMOCRATS UNDER
THE AEGIS OF THE PRESIDENT, IT COULD DRAG ON. BUT EVERYONE IS
AWARE OF THE GRAVE FOREIGN EXCHANGE PROBLEMS THAT WILL ARISE
THE END OF DECEMBER AND NO ONE WANTS TO SPEND CHRISTMAS HOL-
IDAYS RESOLVING A CRISIS. THUS WE ANTICIPATE THAT SOME SOLUTION,
POSSIBLY EVEN AN INTERIM ONE WILL BE FOUND BY THE END
OF DECEMBER. THE QUESTION IS WHETHER THIS SOLUTION WILL
BE SUFFICIENT TO ENABLE THE NEGOTIATIONS WITH THE IMF
TO BE CONSUMMATED, THEREBY AVOIDING A SERIOUS LIQUIDITY
CRISIS.

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PAGE 03 LISBON 09162 02 OF 02 291854Z

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